

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>City of Dearborn Heights Tax Increment Finance Authority</u>	County <u>Wayne</u>
Audit Date <u>June 30, 2005</u>	Opinion Date <u>October 7, 2005</u>	Date Accountant Report Submitted To State: <u>December 29, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature <i>Plante & Moran, PLLC</i>			

Dearborn Heights Tax Increment Finance Authority

**Financial Report
with Supplemental Information
June 30, 2005**

Dearborn Heights Tax Increment Finance Authority

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Independent Auditor's Report

To the Board of Directors
Dearborn Heights Tax Increment
Finance Authority
Dearborn Heights, Michigan

We have audited the accompanying financial statements of each major fund and the government-wide activities of the Dearborn Heights Tax Increment Finance Authority as of and for the year ended June 30, 2005, which collectively comprise the Tax Increment Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dearborn Heights Tax Increment Finance Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the government-wide activities of the Dearborn Heights Tax Increment Finance Authority as of June 30, 2005 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

October 7, 2005

Dearborn Heights Tax Increment Finance Authority

Management's Discussion and Analysis

Our discussion and analysis of the Dearborn Heights Tax Increment Finance Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- Captured property tax revenue, the Authority's largest revenue source, decreased by approximately 10 percent from the prior year.
- The Authority spent approximately \$658,000 on the construction of the police and court facility.
- The largest taxpayer in the Authority's district was the Central Wayne County Sanitation Authority. The incinerator owned by the Authority is no longer in operation as the partnership contracted by the Sanitation Authority to operate the facility filed bankruptcy during the prior fiscal year. Due to the loss of this taxpayer, the taxable value of property captured by the Authority decreased approximately \$14.4 million. Even with this in mind, the Authority is still able to function and will be able to process the bonds that it has obtained for the Justice Center. Future plans for the Sanitation Authority property are still in the planning stages.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements, by providing information about the Authority's funds.

Dearborn Heights Tax Increment Finance Authority

Management's Discussion and Analysis (Continued)

The Authority as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 4,823,011	\$ 6,194,094
Noncurrent assets	<u>25,729,259</u>	<u>25,986,612</u>
Total assets	30,552,270	32,180,706
Liabilities		
Current liabilities	1,607,408	1,528,602
Long-term liabilities	<u>24,455,000</u>	<u>25,475,000</u>
Total liabilities	<u>26,062,408</u>	<u>27,003,602</u>
Net Assets		
Invested in capital assets - Net of related debt	254,259	(428,388)
Unrestricted	<u>4,235,603</u>	<u>5,605,492</u>
Total net assets	<u>\$ 4,489,862</u>	<u>\$ 5,177,104</u>

The Authority's total net assets decreased from 2004 by approximately \$690,000, or 13 percent. Due to the bankruptcy of the Central Wayne County Sanitation Authority, property tax revenue captured by the Tax Increment Finance Authority decreased approximately \$308,000 from 2004. The Authority was also charged \$175,000 by the City of Dearborn Heights Corporate Fund for administrative costs incurred by the Corporate Fund on behalf of the Authority. In addition, the new police and court facility was placed in service in the prior fiscal year and depreciation expense on this asset increased approximately \$200,000 from 2004.

Dearborn Heights Tax Increment Finance Authority

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	2005	2004
Revenue		
Property taxes	\$ 2,778,315	\$ 3,086,528
Interest and other	376,684	381,629
Total revenue	3,154,999	3,468,157
Program Expenses		
Public safety	848,067	815,725
Public works	1,391,044	1,536,714
Economic development	136,932	69,114
Recreation	45,434	706,796
Rent expense	213,707	-
Interest on long-term debt	1,207,057	1,378,175
Total program expenses	3,842,241	4,506,524
Change in Net Assets	\$ (687,242)	\$ (1,038,367)

Total revenue for the Authority decreased approximately \$313,000, or 9 percent, from 2004. This is due to the decrease in property taxes captured from the Central Wayne County Sanitation Authority in the current fiscal year. Total expenses decreased approximately \$664,000, or 15 percent. This is due primarily to the decrease from 2004 in expenditures incurred by the Authority on behalf of the City of Dearborn Heights for library improvements.

The Authority's Funds

The fund financial statements provide detailed information about the funds of the Authority, not the Authority as a whole. The board of directors creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond proceeds. The Authority's funds for 2004 include the Operating Fund, Capital Projects Fund, and Debt Service Fund.

Operating Fund Budgetary Highlights

The Operating Fund of the Authority accounts for all of the annual projects as planned by the board of directors. The Operating Fund spent approximately \$3.7 million in the current year, which was approximately \$2.5 million less than budgeted. This is due primarily to sewer lining, park improvements, library improvements, and debt service payments that were budgeted for but not incurred in the current fiscal year.

Dearborn Heights Tax Increment Finance Authority

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

The Authority spent approximately \$658,000 on the construction of the police and court facility. As of June 30, 2005, the Authority was close to completing the construction of this facility and the facility was placed in service. In addition, the Authority paid approximately \$1.28 million in interest on outstanding bonds in the current year.

Economic Factors and Next Year's Budgets and Rates

During the prior year ended June 2004, the taxable value in the Authority decreased approximately \$14.4 million due to the bankruptcy of the Central Wayne County Sanitation Authority. The Sanitation Authority accounted for approximately 20.4 percent of the Authority's captured tax base.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Dearborn Heights Tax Increment Finance Authority's finances and to show the Tax Increment Finance Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority at 25637 Michigan Avenue, Dearborn Heights, MI 48125 or the City of Dearborn Heights' finance office at 6045 Fenton, Dearborn Heights, MI 48127.

Dearborn Heights Tax Increment Finance Authority

Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2005

	Operating Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments (Note 3)	Government- wide Statement of Net Assets
Assets						
Cash and cash equivalents (Note 4)	\$ 4,381,101	\$ 352,751	\$ 28,688	\$ 4,762,540	\$ -	\$ 4,762,540
Due from other funds	2,530	-	-	2,530	(2,530)	-
Due from the City	36,906	-	-	36,906	-	36,906
Due from other governmental units	23,565	-	-	23,565	-	23,565
Capital assets not being depreciated (Note 5)	-	-	-	-	2,767,640	2,767,640
Capital assets being depreciated (Note 5)	-	-	-	-	22,961,619	22,961,619
Total assets	\$ 4,444,102	\$ 352,751	\$ 28,688	\$ 4,825,541	25,726,729	30,552,270
Liabilities						
Accounts payable	\$ 226,917	\$ 100,409	\$ -	\$ 327,326	-	327,326
Accrued liabilities	-	-	-	-	258,799	258,799
Due to other funds	-	-	2,530	2,530	(2,530)	-
Due to the City	1,283	-	-	1,283	-	1,283
Long-term debt (Note 7):						
Due within one year	-	-	-	-	1,020,000	1,020,000
Due in more than one year	-	-	-	-	24,455,000	24,455,000
Total liabilities	228,200	100,409	2,530	331,139	25,731,269	26,062,408
Net Assets						
Fund balances - Unreserved -						
Designated for:						
Capital projects (Note 8)	4,215,902	252,342	-	4,468,244	(4,468,244)	
Debt service	-	-	26,158	26,158	(26,158)	
Total fund balances	4,215,902	252,342	26,158	4,494,402	(4,494,402)	
Total liabilities and net assets	\$ 4,444,102	\$ 352,751	\$ 28,688	\$ 4,825,541		
Invested in capital assets - Net of related debt					254,259	254,259
Unrestricted					4,235,603	4,235,603
Total net assets					\$ 4,489,862	\$ 4,489,862

Dearborn Heights Tax Increment Finance Authority

Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended June 30, 2005

	Operating Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments (Note 3)	Government- wide Statement of Activities
Revenues						
Property taxes	\$ 2,778,315	\$ -	\$ -	\$ 2,778,315	\$ -	\$ 2,778,315
Interest and other	89,245	14,161	273,278	376,684	-	376,684
Total revenues	2,867,560	14,161	273,278	3,154,999	-	3,154,999
Expenditures/Expenses						
Public works:						
Administration	65,800	-	-	65,800	-	65,800
Contingency	175,000	-	-	175,000	-	175,000
Water main replacement	644,946	-	-	644,946	-	644,946
Tree trimming	4,910	-	-	4,910	-	4,910
Depreciation	-	-	-	-	200,000	200,000
Catch basin repairs	113,561	-	-	113,561	-	113,561
Gulley Road improvements	161,672	-	-	161,672	-	161,672
Beech Daly improvements	3,760	-	-	3,760	-	3,760
Right/Way maintenance and repair	21,395	-	-	21,395	-	21,395
Public safety:						
Crime prevention officer	30,000	-	-	30,000	-	30,000
Property management inspector	15,933	-	-	15,933	-	15,933
Justice center improvements	24,315	-	-	24,315	-	24,315
Fire station improvements	61,980	-	-	61,980	-	61,980
Depreciation	-	-	-	-	704,049	704,049
Recreation - Daly Park improvements	45,434	-	-	45,434	-	45,434
Economic Development:						
Westwood School improvements and programs	101,314	-	-	101,314	-	101,314
Industrial Park improvements	35,618	-	-	35,618	-	35,618
Capital outlay - Police building	-	658,486	-	658,486	(646,696)	11,790
Rent expense	213,707	-	-	213,707	-	213,707
Debt service:						
Principal	350,000	-	590,000	940,000	(940,000)	-
Interest	1,010,016	-	271,922	1,281,938	(74,881)	1,207,057
Total expenditures/expenses	3,079,361	658,486	861,922	4,599,769	(757,528)	3,842,241
Excess of Expenditures Over Revenues	(211,801)	(644,325)	(588,644)	(1,444,770)	757,528	(687,242)
Other Financing Sources (Uses)						
Transfers in	-	-	589,400	589,400	-	589,400
Transfers out	(589,400)	-	-	(589,400)	-	(589,400)
Total other financing sources (uses)	(589,400)	-	589,400	-	-	-
Net Change in Fund Balances	(801,201)	(644,325)	756	(1,444,770)	757,528	(687,242)
Fund Balances/Net Assets - July 1, 2004	5,017,103	896,667	25,402	5,939,172	(762,068)	5,177,104
Fund Balances/Net Assets - June 30, 2005	<u>\$ 4,215,902</u>	<u>\$ 252,342</u>	<u>\$ 26,158</u>	<u>\$ 4,494,402</u>	<u>\$ (4,540)</u>	<u>\$ 4,489,862</u>

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the Dearborn Heights Tax Increment Finance Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

Reporting Entity

The Dearborn Heights Tax Increment Finance Authority is a component unit of the City of Dearborn Heights, Michigan and is included in the general purpose financial statements of the City of Dearborn Heights, Michigan. The Authority was formed under Act 450 of the Public Acts of 1980 to develop southwest Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The accompanying financial statements present the Authority.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The government reports the following major governmental funds:

Operating Fund - The Operating Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund accounts for the construction of the police and court facility along with contributions toward the construction of the John F. Kennedy Library.

Debt Service Fund - The Debt Service Fund accounts for all debt payments made on the outstanding debt balances of the Authority.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

Capital Assets - Capital assets, which include property and infrastructure assets (e.g., roads), are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building and improvements and roads are depreciated using the straight-line method over the following useful lives:

Building and improvements	5-50 years
Roads	25 years

Long-term Obligations - In the government-wide financial statements, long-term debt is reported as a liability. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted for the Operating Fund on an activity basis. Annual budgets are not adopted for the Capital Projects or Debt Service Funds. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that operating transfers have been included in "revenue" and "expenditure" categories, rather than "other financing sources (uses)."

The budget process begins in December and January after the TIFA administrator meets with the assessor and treasurer to determine the estimated revenue for the new fiscal year.

The TIFA administrator contacts various City department heads to determine any needs for individual departments. Proposed projects and/or continuation projects are discussed with the department head.

A proposed budget is prepared by the administrator based on the TIFA finance and development plan. This proposed budget is then discussed with the mayor for his input and suggestions.

The proposed budget is then presented to the TIFA board for discussion. If there are any changes to the proposed budget, they are made at this time. The TIFA board is then presented with the budget for adoption contingent upon City Council concurrence.

The budget is then presented to the City Council for adoption pursuant to the State TIFA Act. Every attempt is made to have the TIFA budget adopted around the time that the City budget is adopted in June.

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

In July or August, the TIFA administrator meets with the city treasurer to determine the final and actual TIFA tax capture (revenue) as presented by the Michigan Treasury Department. The TIFA budget is amended as needed and presented to the TIFA board for approval contingent upon City Council concurrence. The City Council is then presented with the amended budget for approval.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the current year, the Authority incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
Transfers out	\$ -	\$ 589,400

The transfer out relates to bond payments and was budgeted as a debt service expenditure.

Note 3 - Adjustments

Total fund balances and the net change in fund balances of the Authority's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet.

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note 3 - Adjustments (Continued)

The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 4,494,402
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	25,729,259
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	<u>(25,733,799)</u>
Total Net Assets - Full Accrual Basis	\$ 4,489,862
Total Change in Fund Balance - Modified Accrual Basis	\$ (1,444,770)
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	646,696
Depreciation	<u>(904,049)</u>
Governmental funds report interest expense based on amounts paid in cash during the fiscal year; on the statement of activities, interest expense is expensed based upon accrued expense	74,881
Repayment of bond principal is an expenditure in the governmental funds, but is not reported as an expense in the statement of activities (where it reduces debt)	<u>940,000</u>
Total Change in Net Assets - Full Accrual Basis	\$ (687,242)

Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated four banks for the deposit of Authority funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and CDs, but not the remainder of State statutory authority as listed above.

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note 4 - Deposits and Investments (Continued)

The Dearborn Heights Tax Increment Finance Authority deposits and investment policy is in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements as cash and cash equivalents. The entire balance relates to bank deposits (checking accounts, savings accounts, and certificates of deposit) and is therefore subject to the following risk:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$3,981,101 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 5 - Capital Assets

Capital asset activity of the Authority's governmental activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 2,767,640	\$ -	\$ -	\$ 2,767,640
Capital assets being depreciated:				
Buildings and improvements	20,724,100	646,696	-	21,370,796
Roads	5,000,000	-	-	5,000,000
Subtotal	25,724,100	646,696	-	26,370,796
Accumulated depreciation:				
Buildings and improvements	505,128	704,049	-	1,209,177
Roads	2,000,000	200,000	-	2,200,000
Subtotal	2,505,128	904,049	-	3,409,177
Net capital assets being depreciated	23,218,972	(257,353)	-	22,961,619
Net capital assets	<u>\$ 25,986,612</u>	<u>\$ (257,353)</u>	<u>\$ -</u>	<u>\$ 25,729,259</u>

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to the public works and public safety programs as it relates to roads, sidewalks, and the police and court facility.

Note 6 - Interfund Receivables, Payables, and Transfers

The Debt Service Fund owed the Operating Fund \$2,530 at June 30, 2005. In addition, the Operating Fund transferred \$589,400 to the Debt Service Fund to cover current year principal and interest expense payments.

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

Long-term obligation activity can be summarized as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Limited Tax Development Bonds	2009	5.70%-6.30%	\$ 2,500,000	\$ -	\$ 450,000	\$ 2,050,000	\$ 500,000
Limited Tax Development Bonds	2019	4.75%-5.00%	2,915,000	-	140,000	2,775,000	145,000
Tax Increment Bonds, Series 2001-A	2031	4.25%-5.00%	21,000,000	-	350,000	20,650,000	375,000
Total general obligations			<u>\$ 26,415,000</u>	<u>\$ -</u>	<u>\$ 940,000</u>	<u>\$ 25,475,000</u>	<u>\$ 1,020,000</u>

Annual debt service requirements to maturity for the above bond obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 1,020,000	\$ 1,227,547	\$ 2,247,547
2007	1,050,000	1,173,760	2,223,760
2008	1,110,000	1,117,086	2,227,086
2009	1,140,000	1,057,639	2,197,639
2010	645,000	1,012,043	1,657,043
2011-2015	3,870,000	4,578,625	8,448,625
2016-2020	4,665,000	3,594,415	8,259,415
2021-2025	4,700,000	2,426,250	7,126,250
2026-2030	5,850,000	1,120,000	6,970,000
2031-2035	1,425,000	35,625	1,460,625
Total	<u>\$ 25,475,000</u>	<u>\$ 17,342,990</u>	<u>\$ 42,817,990</u>

Dearborn Heights Tax Increment Finance Authority

Notes to Financial Statements June 30, 2005

Note 8 - Designated Fund Balance

The designations of fund balance are as follows:

Administration	\$ 250,000
Contingency	450,000
Westwood drug education	3,000
Westwood School	133,845
Industrial Park	453,301
Water main	456,030
Fire department	160,204
Acquisition Bond	1,477,368
Justice Center improvements	5,685
Tree trimming	130
Ordinance officer	40,000
Right of way	1,746
Gulley Road	289,800
Daly Park	8,000
Sewer lining	166,360
Manhole/catch basins	26,062
Beech Daly improvements	8,079
Library improvements	<u>286,292</u>
Total fund balance	<u>\$ 4,215,902</u>

Note 9 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The City has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

Required Supplemental Information

Dearborn Heights Tax Increment Finance Authority

Required Supplemental Information Budgetary Comparison Schedule - Operating Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Fund Balance - Beginning of year	\$ 5,017,103	\$ 5,017,103	\$ 5,017,103	\$ -
Resources (inflows):				
Property taxes	6,137,251	6,137,251	2,778,315	(3,358,936)
Interest and other	-	-	89,245	89,245
Total resources (inflows)	6,137,251	6,137,251	2,867,560	(3,269,691)
Charges to appropriations (outflows):				
Public works:				
Administration	94,392	94,392	65,800	28,592
Contingency	290,305	290,305	175,000	115,305
Water main replacement	684,089	684,089	644,946	39,143
Beech Daly Road water main extension	11,840	11,840	3,760	8,080
Tree trimming	5,040	5,040	4,910	130
Storm sewer cleaning and lining	166,360	166,360	-	166,360
Catch basin repairs	139,622	139,622	113,561	26,061
Gulley Road improvements	400,000	400,000	161,672	238,328
Right of way maintenance and repair	23,141	23,141	21,395	1,746
Public safety:				
Crime prevention officer	30,000	30,000	30,000	-
Property management inspector	30,000	30,000	15,933	14,067
Justice center improvements	30,000	30,000	24,315	5,685
Fire station improvements	222,326	222,326	61,980	160,346
Recreation:				
Library improvements	286,292	286,292	-	286,292
Daly Park improvements	45,577	45,577	45,434	143
Economic Development:				
Westwood School improvements and programs	138,256	138,256	101,314	36,942
Industrial Park improvements	488,919	488,919	35,618	453,301
Debt service - Interest and principal	3,051,092	3,051,092	1,573,723	1,477,369
Transfers out	-	-	589,400	(589,400)
Total charges to appropriations (outflows)	6,137,251	6,137,251	3,668,761	2,468,490
Fund Balance - End of year	\$ 5,017,103	\$ 5,017,103	\$ 4,215,902	\$ (801,201)